

This report is divided into two parts:

The first consists of items on situations where developments may occur in the near future.

The second part consists of status reports on other important situations where critical developments are not expected soon.

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CRITICAL SITUATIONS

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COMMUNISTS MAY MAKE
NEW ATTACKS ON TACHENS

Further Chinese Communist operations against islands of the Tachen group are expected in the near future, following the capture of Ichiang Island on 18 January. The Communists may also renew operations against the Quemoy Islands to the south.

The Communists are capable of taking any or all of the Tachens against Nationalist opposition alone.

The principal islands of the group, Upper and Lower Tachen, are garrisoned by 10,000 regulars and 2,750 guerrillas. The minor outlying islands, Yushan to the northeast and Pishan and Nanchishan to the southwest, are held by a total of 2,500 regulars and 3,150 guerrillas.

The Nationalists are risking further losses of major naval vessels by sending two destroyers and three destroyer escorts to the Tachens for the stated purpose of striking Communist vessels during hours of darkness. The Nationalist ships will be vulnerable to air action during daylight hours and to torpedo boats at night.

The situation of the Nationalist garrison on the two main Tachens is bleak. Adequate air support has not been provided, and the planned

level of supplies has not been reached. The Nationalist commander, reported "near despair" a week ago, may surrender if the Communists attack in force.

Chiang Kai-shek may be contemplating withdrawal of the Tachens garrison, but the time for an effective evacuation may have passed. Unless American forces were to cover an evacuation, the Communists could make a bloody fiasco of it.

The Communists have not yet engaged in unusual operations near the Quemoy.

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Further Communist successes against the off-shore islands, plus Nationalist disappointment over American policy statements, may sharply increase Nationalist vulnerability to Communist propaganda inciting defection.

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COSTA RICAN REVOLT
APPEARS TO BE FAILING

The attempted revolution in Costa Rica appears to be failing.

The rebels seem to have underestimated the Costa Rican Civil Guard and overestimated the domestic opposition to the Figueres administration. The internal support the rebels apparently expected has thus far not been forthcoming. The populace in general has supported the government and the Civil Guard seems to be completely loyal.

The rebels are further hampered by their apparent inability to use their air support. The presence of an Organization of American States (OAS) investigating committee has prevented the rebels from using the air bases in Nicaragua from which they apparently launched their initial attack. One rebel C-47 has crashed and two smaller planes were interned by Nicaraguan authorities after the planes had been seen in Nicaragua by OAS observers. Another combat plane has "disappeared."

The apparent failure of the Costa Rican revolt is clearly in the interests of the United States, not because of the merits or demerits of the governments concerned, but because a successful repetition of a "Guatemala-type" coup would be a dangerous precedent.

Government troops are not now overextended in the Liberia area in the northwest corner of the country. In addition, a government force estimated at 1,400 men remains in the capital, from where aid could be quickly transported to threatened areas.

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INTENSIFIED FIGHTING
LIKELY IN NORTHERN LAOS

An intensification of hostilities in northern Laos is possible in the near future if the government carries out its plans to dispatch several battalions to the area.

More than 1,200 Pathet Lao troops began a series of attacks in Sam Neua Province on heavily outnumbered government posts. This represents the strongest effort by the Communists to date to prevent the royal government from re-establishing its control over the northern area.

The attacks may jeopardize any hopes the Communists have of strengthening their position in political talks with the government. Laotian officials are incensed over the attacks, although not yet to the point of calling off the discussions.

French officials believe that either drastic military action by the Laotian government, or a direct appeal to the Geneva conference members, is necessary if the Communists are to be prevented from gaining permanent possession of northern Laos.

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PART II

STATUS REPORTS
ON OTHER SITUATIONS

US Airmen in China: UN secretary general Hammarskjold's accounts of his mission to Peiping make it clear that the Chinese Communists do not intend to release the American airmen now, but Peiping's longer-range intentions remain uncertain.

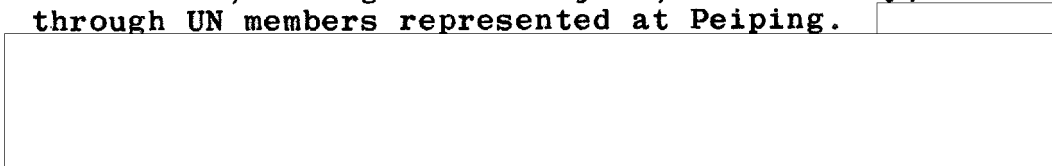
Peiping has achieved one major goal in the airmen's case--it has enhanced its prestige by inducing the UN to treat with it. There seems a good chance that the Chinese Communists, in order to conciliate world opinion and further their campaign for China's seat in the UN, will release at least some of the airmen in the next few months.



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Pending the release of the airmen, Peiping might seek to embarrass the United States by inviting persons interested in the case to visit the Communist capital and see the exhibit of alleged evidence of American "espionage." The Chinese would probably produce the Americans themselves if asked to do so.

It also remains possible that Communist China hopes to bargain with the United States on the airmen's case, through Hammarskjold, or directly, or through UN members represented at Peiping.



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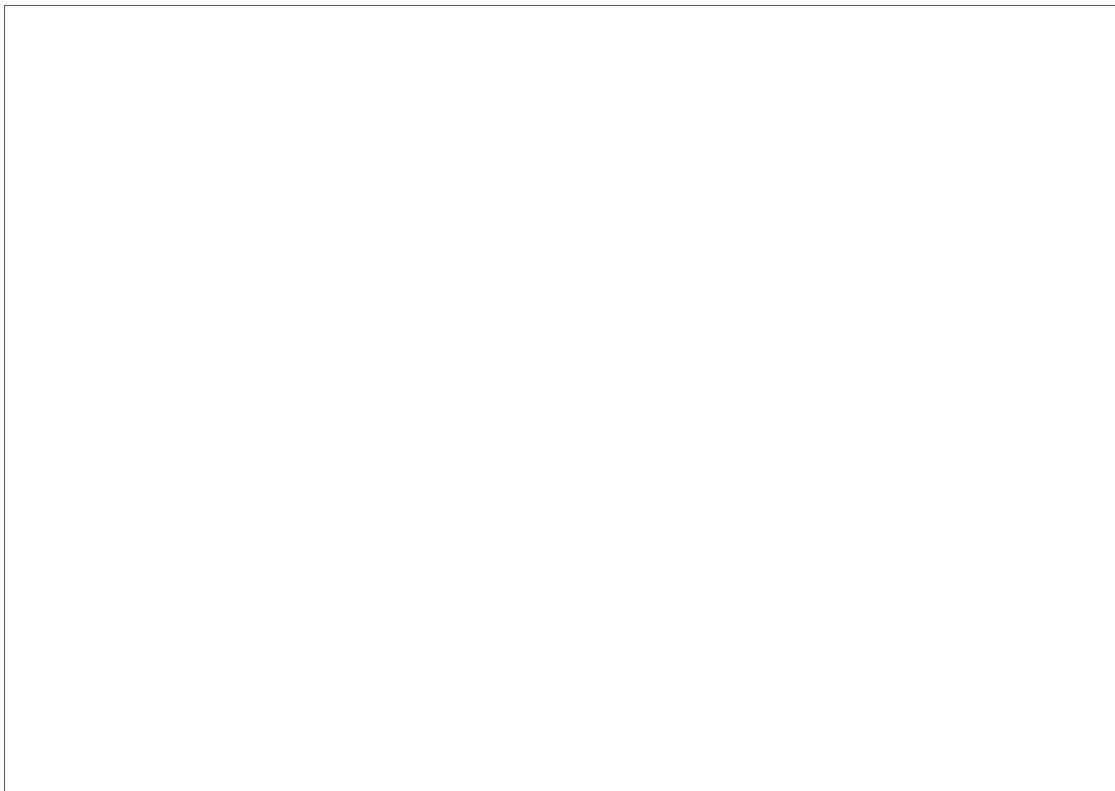
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Hammaraskjold himself told the press that there is a "definite link" between the prospects for the airmen's release and an improvement in relations between Washington and Peiping.

Peiping might next try to send a delegation to the UN to discuss the airmen's case and other matters allegedly related to "lessening tensions." Hammaraskjold has publicly stated that it would be "useful" if Peiping were "directly represented" in the UN, and Peiping last week recalled its ambassador to Moscow, the most experienced Chinese Communist official in UN affairs.

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The Afro-Asian Conference: The prospects for a big turnout for the Afro-Asian conference have been improved by the British decision to encourage friendly nations to attend. London hopes to influence these countries to take a constructive line in order to counter expected Chinese Communist maneuvers.

The British stand a chance of achieving considerable success. Mohammad Ali of Pakistan has

stated that he is eagerly anticipating "clobbering" the Communists at the conference. There appears to be a growing feeling among the Arab States that one reason they should attend is to prevent Pakistan from having to stand alone against Peiping.

The Japanese have indicated a belief that a maximum number of anti-Communist delegations should be present to prevent either Chou En-lai or Nehru from dominating the meeting by default. It is not unlikely that Nehru himself will go to considerable lengths to prevent the Communists from exercising the initiative.

Meanwhile, Peiping continues to hammer away at the theme that the United States is attempting to sabotage the conference. It is likely to find an increasingly responsive audience, particularly in the neutral countries of South and Southeast Asia, where a similar view is already widely held. Moreover, it is possible that the belief will spread that the United States not only is scornful of Asians and Africans but fears that its friends are incapable of standing up to the Communists.

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French Ratification Prospects: French premier Mendes-France told an American official in Paris on 16 January that he is willing to refrain from making an immediate proposal to the USSR for new East-West talks. He is prepared instead to agree to the formation of a working group--which would include the West Germans--to study the problems involved in negotiations with Moscow.

The premier again insisted that the Council of the Republic will vote favorably on the Paris agreements only if some progress toward arranging East-West talks is made before the council acts on the accords.

Meanwhile a French official has intimated that France will accept an agreement setting up an arms production pool for only a two-year "probationary" period, after which the pool could be dropped if nothing practical resulted.

Mendes-France's apparent willingness to abandon major elements of his original proposal so early in the arms pool talks--they began on 17 January--may be an indication the premier believes he has impressed the French parliament sufficiently with his efforts to assure control of German rearmament. It is unlikely the French have given up all hope of stronger controls. He may, moreover, continue to insist that American military aid be channeled through WEU.

The Council of the Republic is expected to begin debate on the Paris agreements by mid-February, and will probably vote favorably on them by the end of the month.

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Soviet Moves Against Ratification: The USSR is continuing its moves designed to prevent ratification of the Paris agreements or at least to raise Western doubts as to the wisdom of rearming Germany. The Soviet campaign can be expected to stay in high gear at least throughout the next stage of the ratification process--the West German Bundestag debates and action by the French Council of the Republic, both due to begin in mid-February.

Moscow's statement on 15 January, offering for the first time to establish diplomatic relations with Bonn and indicating willingness to accept some sort of international supervision of all-German elections, is not likely to affect the Bundestag's decision.

Reports of the "imminence" of war which continue to be circulated have probably been generated by the USSR to convince public opinion and parliaments that ratification will have serious consequences and to prepare Orbit opinion for increased security and military measures. Such reports probably will continue at least until final ratification.

Despite such "scare" propaganda, the USSR has not committed itself to any specific countermeasures to German rearmament other than further Satellite military integration. In fact, Moscow has somewhat reduced the intensity of "war threat" propaganda both in Eastern Europe and within the USSR, presumably because of mounting popular concern.

Soviet actions--as distinct from propaganda--aimed at intimidating Western Europe on the eve of ratification have been confined thus far to harassment in Berlin. There has been a significant intensification of controls on border crossers and on currency and purchasing in Berlin during the past week. Even stricter measures can be expected after ratification of the Paris accords.

In Austria, Soviet authorities have set up check points around Vienna but have not yet used them. Zonal border controls, abandoned in June 1953, may be reimposed.

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Soviet "Atoms-for-peace" Plan: The USSR is attempting to regain the initiative on "atoms-for-peace" proposals, which it lost as a result of unanimous UN support of the American "atom pool" plan, by dramatic announcements during the week of plans for the peaceful use of atomic energy. The announcements may foreshadow a rival "atoms-for-peace" plan on an international scale.

The Soviet Union has stated that a report on an atomic power station, allegedly working since the summer of 1954, will be submitted to a UN-sponsored conference of scientists scheduled to meet in August. The USSR has also announced that both fissionable material and scientific know-how are being offered to the five Orbit states which have furnished raw materials for the Soviet program--Communist China, East Germany, Czechoslovakia, Rumania and Poland--thus allowing them to join in the "peaceful" development of atomic energy.

This offer appears intended to match the American offer of fissionable materials to nations participating in the American "atom pool" plan.

Moscow has always insisted that Communist China be included in any international "atom pool" plan and the Soviet offer suggests that the nucleus of a Moscow-sponsored international combine is now in the making.

The USSR has already said it is considering expanding its offer to include additional countries. The most likely target would be underdeveloped Asian countries where the USSR is stressing offers of economic and technical assistance.

Moscow now has the capacity to back up such offers.

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French North Africa: The tempo of terrorist attacks in Morocco has diminished somewhat during the past week.

An Italian national and a British citizen were, however, among the seven Europeans slain in early January and the American consul general in Casablanca fears that Americans may be attacked.

Negotiations for Tunisian self-government, which began in Paris on 11 September, stalled again last week but have probably resumed since Premier Mendes-France returned to Paris. The premier previously has expressed annoyance at the slow pace of the negotiators and has declared he would personally supervise the talks.

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Japan-Orbit Relations: Prime Minister Hatoyama is arousing popular enthusiasm for closer relations with the Orbit by his off-the-cuff election campaign speeches. His government is badly divided on this question and is hardly in a position to make any positive move on it before the March elections. But popular pressure on the issue is building up to such an extent that any postelection government will feel compelled to take some tangible action toward establishing diplomatic relations with the USSR and possibly with Communist China.

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Panama: The situation in Panama appears improved. President Ricardo Arias has the support of the National Guard, Panama's only armed force. The new government is attempting to adhere to constitutional processes. It is anxious to sign and push ratification of the new agreements with the United States on the Canal Zone.

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Note: There are no significant new developments to report this week on the following situations:

British-Saudi Oil Dispute

Sudan

Indonesia

Chile

Guatemala

Subversion on Formosa

Syria

Yugoslav-Orbit Relations

Greece

The Arab-Israeli Dispute

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